



Basic Financial Statements

For the Year Ended September 30, 2008

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Table of Contents

	<u>PAGE</u>
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Net Assets	2
Statement of Revenues, Expenses, and Changes in Fund Net Assets	3
Statement of Cash Flows	4-5
Notes to Financial Statements	6-16
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17-18

INDEPENDENT AUDITORS' REPORT

January 19, 2009

To the Board of Directors
Shiawassee County Community Mental Health Authority
Owosso, Michigan

We have audited the accompanying financial statements of the ***Shiawassee County Community Mental Health Authority*** (the "Authority"), as of and for the year ended September 30, 2008. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shiawassee County Community Mental Health Authority, as of September 30, 2008, and the changes in financial position and its cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.



BASIC FINANCIAL STATEMENTS

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY
Statement of Net Assets
September 30, 2008**

Assets

Current assets:

Cash and cash equivalents	\$ 2,017,330
Restricted cash and cash equivalents	1,249,966
Accounts receivable, net	169,422
Due from other governments	466,029
Prepaid items	67,626
Other assets	44,808
Total current assets	<u>4,015,181</u>

Noncurrent assets:

Capital assets not being depreciated	1,649,179
Capital assets being depreciated, net	2,332,642
Total noncurrent assets	<u>3,981,821</u>

Total assets	<u>7,997,002</u>
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Liabilities

Current liabilities:

Accounts payable and accrued liabilities	1,212,239
Note payable	282,829
Accrued compensated absences, current portion	39,993
Mortgages payable, current portion	54,392
Total current liabilities	<u>1,589,453</u>

Noncurrent liabilities:

Accrued compensated absences, net of current portion	159,973
Mortgages payable, net of current portion	3,411,975
Total noncurrent liabilities	<u>3,571,948</u>

Total liabilities	<u>5,161,401</u>
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Net assets

Invested in capital assets, net of related debt	515,454
Restricted	1,050,000
Unrestricted	<u>1,270,147</u>
Total net assets	<u>\$ 2,835,601</u>

The accompanying notes are an integral part of these financial statements.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**
Statement of Revenue, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2008

Operating revenues	
Medicaid	\$ 10,765,481
State general fund	1,634,178
Earned revenues, grants and federal programs	548,415
Charges for services	252,365
Local revenue:	
County appropriation	200,002
Rents	220,810
Other	23,456
	<hr/>
Total operating revenues	13,644,707
	<hr/>
Operating expenses	
Salaries and wages	4,091,719
Fringe benefits	1,528,458
Contracted services and professional fees	4,236,217
State and local inpatient	881,319
Residential group home providers	1,162,256
Depreciation	128,904
Other operating costs	1,700,684
	<hr/>
Total operating expenses	13,729,557
	<hr/>
Operating loss	(84,850)
	<hr/>
Nonoperating revenues (expenses)	
Investment income	109,409
Interest expense	(199,479)
Gain on disposal of capital assets	12,546
	<hr/>
Total nonoperating expenses	(77,524)
	<hr/>
Change in net assets	(162,374)
	<hr/>
Net assets, beginning of year	2,997,975
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Net assets, end of year	<u><u>\$ 2,835,601</u></u>

The accompanying notes are an integral part of these financial statements.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2008

Cash flows from operating activities

Cash received from customers	\$ 13,330,066
Cash payments to employees	(5,606,227)
Cash payments to suppliers for goods and services	<u>(7,806,915)</u>
Net cash used by operating activities	<u>(83,076)</u>

Cash flows from capital and related financing activities

Purchase of capital assets	(1,454,466)
Issuance of mortgage agreements	1,027,462
Mortgage principal payments	(57,764)
Mortgage and short-term note interest payments	(199,479)
Issuance of short-term note payable	286,926
Note payable principal payments	(4,097)
Proceeds from disposal of capital assets	<u>16,800</u>
Net cash used by capital and related financing activities	<u>(384,618)</u>

Cash flows from investing activities

Investment income	<u>109,409</u>
Net decrease in cash and cash equivalents	(358,285)

Cash and cash equivalents, beginning of year	<u>3,625,581</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,267,296</u></u>

Reconciliation to statement of net assets

Cash and cash equivalents	\$ 2,017,330
Restricted cash and cash equivalents	<u>1,249,966</u>
	<u><u>\$ 3,267,296</u></u>
	continued...

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended September 30, 2008**

**Reconciliation of operating loss to net
cash used by operating activities**

Operating loss	\$ (84,850)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	128,904
Changes in assets and liabilities:	
Accounts receivable	974
Due from other governments	(315,615)
Prepaid items	33,684
Other assets	2,231
Accounts payable and accrued liabilities	137,646
Accrued compensated absences	13,950
	<hr/>
Net cash used by operating activities	<u><u>\$ (83,076)</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Shiawassee County Community Mental Health Authority (SCCMHA or the “Authority”) operates under the provisions of Act 258, Public Acts of 1974 (the Michigan Mental Health Code), as amended. As the community mental health services program (CMHSP) provider for Shiawassee County, the Authority arranges for or provides support and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These support and services are available to Shiawassee County residents who meet eligibility and need criteria. The Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The Authority is a member of the Access Alliance of Michigan (AAM). This affiliation is composed of the community mental health services programs serving Bay-Arenac, Huron, Montcalm, Shiawassee and Tuscola Counties and was formed under the authority of the Intergovernmental Transfer of Functions and Responsibilities Act. Bay-Arenac Behavioral Health Authority (BABHA) is the lead agency for the AAM.

SCCMHA is a separate legal entity that accounts for its own financial activity under its contracts with MDCH and AAM.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles.

The Authority has no component units (i.e., separate legal entities for which the Authority is financially accountable) nor is it reported as a component unit of another government.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

B. Basis of Presentation

The operations of the Authority are accounted for as an enterprise fund (a proprietary fund type) which is designed to be self-supporting. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, accountability, public policy, management control, or other purposes. The enterprise fund is the Authority's primary operating fund and only major fund.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from AAM (Medicaid) and MDCH (state general fund), earned revenues, first and third party billings (charges for services), county appropriations and local revenues. Operating expenses include the cost of providing mental health services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Equity

Cash and Cash Equivalents. SCCMHA's cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

State statutes authorize units of local government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables. Accounts receivable are shown net of an allowance of \$50,625 for uncollectibles, which is based on management's estimate using collection history trends. Amounts due from other governments consist primarily of amounts due from MDCH and AAM.

Prepaid Items. Payments made to vendors for services that will benefit periods beyond September 30, 2008, are recorded as *prepaid items* in the statement of net assets.

Other Assets. Other assets include deferred costs for debt origination and issuance costs; other assets are amortized over the term of the related debt.

Restricted Cash and Cash Equivalents. Cash and cash equivalents have been restricted for the future payment of compensated absences and in satisfaction of the mortgage debt loan covenant.

Capital Assets. Capital assets, which include buildings, furniture and fixtures, office equipment, and vehicles, are reported in the statement of net assets. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets, if any, are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized; improvements are capitalized.

The Authority's capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Vehicles	3
Equipment and furnishings	5-7
Computers	3
Buildings and improvements	10-40

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Payables. Accounts payable and accrued liabilities consist of amounts due to vendors and service providers, along with management's estimate of the inpatient/residential liability. This estimate is based on the clients at each facility, the number of days each client is at each facility, and the daily rate charged for each facility.

Compensated Absences. Employees earn paid time off (PTO) on a monthly basis. Employees in the Non-Supervisory Bargaining Unit are allowed to accumulate and carryover 240 hours of PTO. Employees in the Supervisory Bargaining Unit, or who are not represented, are allowed to accumulate and carryover 480 hours of PTO. All employees are allowed to be paid up to 120 hours of PTO per calendar year. Any accrued PTO is paid out upon termination of employment.

II. DETAILED NOTES

A. Deposits

The following is a summary of cash and cash equivalent balances as of September 30, 2008:

Bank deposits (checking accounts and certificates of deposit)	\$ 3,266,396
Cash on hand	<u>900</u>
Total	<u>\$ 3,267,296</u>
Balances per statement of net assets:	
Cash and cash equivalents	\$ 2,017,330
Restricted cash and cash equivalents	<u>1,249,966</u>
Total	<u>\$ 3,267,296</u>

For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Authority's deposits may not be returned to it. At year end, the carrying value of the Authority's deposits was \$3,266,296 and the bank balance was \$3,386,631. Of the bank balance, \$298,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Restricted cash and cash equivalents totaling \$1,249,966 includes \$199,966 for compensated absences and \$1,050,000 for the mortgage loan debt covenant. Under this covenant as described in the Mortgage Security Agreement, the Authority is required to maintain a minimum cash balance of \$1,050,000 with Chemical Bank (the lender and depository institution) through the term that the related mortgages (*see Note II.C*) are outstanding.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital assets activity for the year ended September 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 291,000	\$ -	\$ -	\$ 291,000
Construction in progress	1,145,522	1,358,179	(1,145,522)	1,358,179
	<u>1,436,522</u>	<u>1,358,179</u>	<u>(1,145,522)</u>	<u>1,649,179</u>
Capital assets being depreciated				
Vehicles	952,886	-	(433,935)	518,951
Equipment and furnishings	1,017,148	96,287	-	1,113,435
Computers	520,519	-	-	520,519
Buildings and improvements	1,170,480	1,145,522	(24,949)	2,291,053
	<u>3,661,033</u>	<u>1,241,809</u>	<u>(458,884)</u>	<u>4,443,958</u>
Less accumulated depreciation for				
Vehicles	(888,768)	(33,130)	429,681	(492,217)
Equipment and furnishings	(981,775)	(23,420)	-	(1,005,195)
Computers	(519,167)	(620)	-	(519,787)
Buildings and improvements	(47,332)	(71,734)	24,949	(94,117)
	<u>(2,437,042)</u>	<u>(128,904)</u>	<u>454,630</u>	<u>(2,111,316)</u>
Total capital assets being depreciated, net	<u>1,223,991</u>	<u>1,112,905</u>	<u>(4,254)</u>	<u>2,332,642</u>
Total capital assets, net	<u>\$ 2,660,513</u>	<u>\$ 2,471,084</u>	<u>\$ (1,149,776)</u>	<u>\$ 3,981,821</u>

C. Short and Long-term Debt

During the year ended September 30, 2007, the Authority entered into a mortgage agreement with a local bank. The agreement provide for two loans under the mortgage, one for the office building portion of the property used by the Authority and the other for the warehouse portion that is leased to an unrelated party. The purpose for these borrowings was to finance the Authority's acquisition and renovation of new office space. During the year ended September 30, 2008, the Authority obtained an additional short-term loan in the amount of \$300,000 to complete its office building renovations.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Following is a summary of those loans:

	Interest Rate	Authorized	Drawn	Available
Mortgages:				
Office building	5.50%	\$ 2,204,107	\$ 2,204,107	\$ -
Warehouse	8.25%	1,324,352	1,324,352	-
Note payable	5.50%	300,000	286,926	13,074
		<u>\$ 3,828,459</u>	<u>\$ 3,815,385</u>	<u>\$ 13,074</u>

The loans are structured to allow the Authority to draw up to the authorized loan balance to pay for acquisition and renovation costs as they are incurred. The mortgage agreement also contains a covenant that the Authority maintain a minimum depository account balance with the bank of not less than \$1,050,000 until the loans are repaid. The maturity date for both loans is May 1, 2032.

Following is a summary of changes in the Authority's short and long-term debt for the year ended September 30, 2008:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
Mortgages:					
Office building	\$ 1,176,644	\$ 1,027,462	\$ (42,593)	\$ 2,161,513	\$ 39,175
Warehouse	1,320,025	-	(15,171)	1,304,854	15,217
Total mortgages	<u>2,496,669</u>	<u>1,027,462</u>	<u>(57,764)</u>	<u>3,466,367</u>	<u>54,392</u>
Note payable	-	286,926	(4,097)	282,829	282,829
Compensated absences	<u>186,016</u>	<u>33,950</u>	<u>(20,000)</u>	<u>199,966</u>	<u>39,993</u>
	<u>\$ 2,682,685</u>	<u>\$ 1,348,338</u>	<u>\$ (81,861)</u>	<u>\$ 3,949,162</u>	<u>\$ 377,214</u>

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The annual debt service requirements to maturity for the taxable mortgage loan are as follows:

Year ended September 30,	Office Building		Warehouse		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 39,175	\$ 109,711	\$ 15,217	\$ 99,644	\$ 54,392	\$ 209,355
2010	45,227	117,194	18,127	107,175	63,354	224,369
2011	47,815	114,607	19,703	105,599	67,518	220,206
2012	50,235	112,186	21,119	104,184	71,354	216,370
2013	53,424	108,997	23,251	102,051	76,675	211,048
2014-2018	316,304	495,802	150,003	476,508	466,307	972,310
2019-2023	417,783	394,323	227,581	398,931	645,364	793,254
2024-2028	551,712	260,394	345,166	281,346	896,878	541,740
2029-2032	639,838	81,183	484,687	97,133	1,124,525	178,316
	<u>\$ 2,161,513</u>	<u>\$ 1,794,397</u>	<u>\$ 1,304,854</u>	<u>\$ 1,772,571</u>	<u>\$ 3,466,367</u>	<u>\$ 3,566,968</u>

D. Lease Commitments

The Authority leases certain real and personal property under operating leases. Lease expense recorded for the year ended September 30, 2008 was \$248,898. Future minimum lease payments under these agreements as of September 30, 2008, are summarized as follows:

Year Ended September 30,	Amount
2009	\$ 80,765
2010	70,532
2011	70,532
2012	70,532
2013	70,532
2014	70,532

The Authority is also the lessor for the warehouse portion of the property previously described in note II-C. The lease term is through April 30, 2009 and contains no lease renewal options.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

E. Restricted Net Assets

The Authority reports restricted net assets for certain reserve accounts established pursuant to the State of Michigan Mental Health Code. As of September 30, 2008, restricted net assets was comprised as follows:

	<u>Compensated Absences</u>	<u>Debt Covenant</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ 199,966	\$ 1,050,000	\$ 1,249,966
Less: related payables	<u>(199,966)</u>	<u>-</u>	<u>(199,966)</u>
Restricted net assets	<u><u>\$ -</u></u>	<u><u>\$ 1,050,000</u></u>	<u><u>\$ 1,050,000</u></u>

III. OTHER INFORMATION

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Authority manages its risk exposures through commercial insurance. On risks which are commercially insured, settlements have not exceeded insurance coverage in any of the past three years.

B. MDCH Revenue and Economic Dependency

Revenues paid either directly or indirectly by the MDCH represent over 90% of the Authority's total revenues and, therefore, the Authority is economically dependent on the revenues from the MDCH.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

D. Postemployment Benefits

The Authority provides health care benefits to all employees who retire from the Authority at age 65 and are vested in the employer's retirement plan under MERS. A \$275 monthly deductible is paid by participating retirees. Plan benefits are funded on a pay-as-you-go basis. Net plan costs for the year ended September 30, 2008 were \$15,573.

E. Retirement Plan

The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The Authority is required to contribute at an actuarially determined rate; the current rate ranges from 6.53% to 11.74% of annual covered payroll depending on the division or bargaining unit. Employees are not required to contribute. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Authority, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the Authority.

For the year ended September 30, 2008, the Authority's annual pension cost of \$296,426 for MERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 28 years.

Three-Year Trend Information

<u>Annual Years Ended September 30,</u>	<u>Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 295,355	100%	\$ -
2007	280,303	100	-
2008	296,426	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$ 6,944,966	\$ 7,042,292	\$ 97,326	98.6%	\$ 3,474,333	2.8%
12/31/06	7,509,633	7,542,905	33,272	99.6%	3,671,078	0.9%
12/31/07	8,117,767	8,265,058	147,271	98.2%	3,977,731	3.7%

F. Contingent Liabilities

Amounts received or receivable from grantor/contract agencies are subject to audit and potential adjustment by those agencies, principally the state and federal governments. Any disallowed costs, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of costs which may be disallowed by the grantor or contract agencies cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

The Authority is periodically a defendant in various lawsuits. Although the outcome of such lawsuits currently pending or threatened, if any, is not presently determinable, it is the opinion of the Authority's management and counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

January 19, 2009

To the Board of Directors
Shiawassee County Community Mental Health Authority
Owosso, Michigan

We have audited the basic financial statements of the *Shiawassee County Community Mental Health Authority* as of and for the year ended September 30, 2008, and have issued our report thereon dated January 19, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of the Authority in a separate letter dated January 19, 2009.

This report is intended solely for the information and use of the Shiawassee County Community Mental Health Authority Board, management, others in the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
UNDER SAS NO. 114**

January 19, 2009

To the Board of Directors of the
Shiawassee County Community Mental Health Authority
Owosso, Michigan

We have audited the financial statements of the *Shiawassee County Community Mental Health Authority* (the “Authority”) for the year ended September 30, 2008, and have issued our report thereon dated January 19, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated November 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Authority’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on December 4, 2008 and throughout the audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 19, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Shiawassee County Community Mental Health Authority* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

Shiawassee County Community Mental Health Authority

Comments and Recommendations

For the Year Ended September 30, 2008

In planning and performing our audit of the financial statements of the Shiawassee County Community Mental Health Authority (the "Authority") as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

Documenting Review and Approval of Bank Reconciliations

Effective internal control procedures should provide a clear evidence trail of who performed what procedure and when. The Authority is diligent in completing its bank reconciliations on a timely basis; however, there is no reviewer's signature to provide evidence of an independent review of the bank reconciliations by someone other than the preparer. We recommend that after the independent review of each monthly bank reconciliation is complete that the reconciliation be initialed and dated to document that this procedure was completed and to provide a complete audit trail.

Shiawassee County Community Mental Health Authority

Comments and Recommendations

For the Year Ended September 30, 2008

New Accounting Standard – Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board recently issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans other than Pension Plans*. Statement No. 43 will become effective for the Authority for fiscal year 2009 and will require additional note disclosures, an actuarial evaluation of the Authority's OPEB plan, and possible recognition of OPEB expenses in the financial statements based on actuarially determined amounts.

The implementation of this new standard will require the Authority to make certain decisions regarding the funding of its OPEB liabilities. We are available to discuss it with management and/or assist the Authority with properly accounting for its OPEB transactions in future periods, as needed.

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